

## **AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE AND THE COUNCIL ON THABO MOFUTSANYANA DISTRICT MUNICIPALITY**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Introduction**

1. I have audited the accompanying financial statements of the Thabo Mofutsanyana District Municipality, which comprise the statement of financial position as at 30 June 2010, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages XX to XX.

#### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### **Auditor-General's responsibility**

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on the financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Thabo Mofutsanyana District Municipality as at 30 June 2010 and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and in the manner required by the MFMA.

**Emphasis of matter**

I draw attention to the matters below. My opinion is not modified in respect of these matters.

**Significant uncertainties**

8. As disclosed in note 24 to the financial statements, the municipality is the defendant in a levy rate dispute. The municipality has appealed against the first ruling, which was in favour of the levy payers. The final outcome of the matter cannot presently be determined and the receivables from non-exchange transactions amounting to R49 079 862, as disclosed in note 7 to the financial statements, have been impaired as bad debts.

**Restatement of corresponding figures**

9. As disclosed in note 26 to the financial statements, the corresponding figures for 30 June 2009 have been restated as a result of errors discovered and changes in accounting policies during the 2009-10 financial year in the financial statements of the Thabo Mofutsanyana District Municipality at, and for the year ended, 30 June 2009.

**Unauthorised expenditure**

10. As disclosed in note 30 to the financial statements, unauthorised expenditure to the amount of R23 833 069 was incurred as the budget amount per vote was exceeded.

**Fruitless and wasteful expenditure**

11. As disclosed in note 31 to the financial statements, fruitless and wasteful expenditure to the amount of R1 091 526 was incurred. This was due to penalties, interest and overpayments made on the purchase of assets.

**Irregular expenditure**

12. As disclosed in note 32 to the financial statements, irregular expenditure to the amount of R86 109 715 was incurred as proper tender processes were not followed and there were other non-compliance issues with regard to the supply chain management (SCM) policy.

**Going concern**

13. As disclosed in note 28 of the financial statements, the ability of the municipality to continue as a going concern is dependent on a number of factors, including the need to obtain funding on a continuous basis.

**Additional matter**

I draw attention to the matter below. My opinion is not modified in respect of this matter.

#### **Unaudited supplementary schedules**

14. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

#### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

15. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations (MFMA, Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA)) and financial management (internal control).

#### **Predetermined objectives**

16. Material findings on the report on predetermined objectives, as set out on pages XX to XX, are reported below:

#### **Non-compliance with regulatory and reporting requirements**

##### **Existence and functioning of a performance audit committee**

17. The municipality did not appoint nor budget for a performance audit committee, nor was another audit committee utilised as the performance audit committee, as required by regulation 14(2) of the Municipal Planning and Performance Management Regulations.

##### **Internal auditing of performance measurements**

18. The internal auditors of the municipality did not audit the performance measurements on a continuous basis nor did they submit quarterly reports to the municipal manager and a performance audit committee.

##### **Lack of adoption of a performance management system**

19. The municipality did not adopt a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, and the roles of the different role players, as required in terms of sections 36, 38, and 41(2) of the MSA, and regulations 7 and 8 of the Municipal Planning and Performance Management Regulations.

##### **Inadequate content of the Integrated Development Plan**

20. The municipality's Integrated Development Plan (IDP) did not include the key performance indicators and performance targets determined by its performance management system, as required by section 26(i) of the MSA and regulation 12 of the Municipal Planning and Performance Management Regulations.

#### **Usefulness of information**

The following criteria were used to assess the usefulness of the planned and reported performance:

- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved IDP, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?

- **Relevance:** Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- **Measurability:** Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable and time bound?

The following audit finding relates to the above criteria:

#### **Performance targets neither measurable nor specific**

21. Measurable and specific targets were not set in the IDP, as required by section 41(1)(b) of the MSA.

#### **Reliability of information**

The following criteria were used to assess the reliability of the planned and reported performance:

- **Validity:** Has the actual reported performance occurred and does it pertain to the entity i.e. can the reported performance information be traced back to the source data or documentation?
- **Accuracy:** Have the amounts, numbers and other data relating to reported actual performance been recorded and reported appropriately?
- **Completeness:** Have all actual results and events that should have been recorded been included in the reported performance information?

The following audit finding relates to the above criteria:

#### **No supporting source documentation**

22. Sufficient appropriate audit evidence in respect of any of the selected programmes could not be obtained to perform satisfactory audit procedures. I could therefore not obtain the required assurance as to the validity, accuracy and completeness of the reported performance information.

#### **Compliance with laws and regulations**

##### **Municipal Finance Management Act**

##### **The internal audit unit was not properly established**

23. Contrary to the requirements of section 165(1) of the MFMA, a functioning internal audit department was not in place for the year under review.

##### **The audit committee was not properly established**

24. Contrary to the requirements of section 166(1) of the MFMA, the municipality did not have an audit committee in operation throughout the financial year.

##### **The accounting officer did not adhere to his/her statutory responsibilities**

25. Contrary to the requirements of section 71 of the MFMA, not all the required information was included in the monthly reports submitted to the mayor and provincial treasury.
26. Contrary to the requirements of section 73 of the MFMA, the provincial treasury was not informed in writing of the failure in implementing the supply chain management and budget-related policies.

27. Contrary to the requirements of section 69(3) of the MFMA, the service delivery and budget implementation plan was not submitted to the mayor within the required time frame. Performance agreements could also not be obtained for audit purposes.

28. Contrary to the requirements of section 62(1)(c)(i) of the MFMA, risk management policy and procedures did not exist and a risk assessment was not performed during the year under review. No fraud prevention plan existed.

**Payments were not made within the parameters set by the applicable legislation**

29. Contrary to the requirements of section 65(2) of the MFMA, payments were not in all instances made within 30 days of receiving invoices.

**Expenditure was incurred otherwise than in accordance with section 15 of the MFMA resulting in unauthorised expenditure**

30. Actual expenditure for the year under review exceeded the approved budget for several votes resulting in unauthorised expenditure in terms of section 15 of the MFMA.

**Expenditure was incurred in contravention of or not in accordance with applicable legislation resulting in irregular expenditure**

31. Expenditure was incurred which was not in accordance with the municipality's supply chain management policy resulting in irregular expenditure as defined in section 1 of the MFMA.

**Expenditure incurred was made in vain or could have been avoided resulting in fruitless and wasteful expenditure**

32. Expenditure was incurred which could have been avoided had reasonable care been exercised resulting in fruitless and wasteful expenditure, as defined in section 1 of the MFMA.

**Supply chain management legislative requirements were not implemented or not adhered to**

33. Contrary to the requirements of section 116(2)(b) of the MFMA, the performance of contractors was not monitored on a monthly basis.

**Municipal Systems Act**

**The accounting officer did not adhere to his/her statutory responsibilities**

34. Contrary to the requirements of sections 53(1) and 66(1)(b) of the MSA, the municipality did not have appropriate job/task descriptions for each political structure, each political office bearer of the municipality or for the municipal manager.

35. Contrary to the requirements of section 42 of the MSA, the municipality did not give the community the opportunity to participate in setting appropriate key performance indicators and performance targets for the municipality.

**Supply chain management legislative requirements were not implemented or not adhered to**

36. Contrary to the requirements of schedule 1, paragraph 5 of the MSA, not all councillors had disclosed their personal and business interests.

## **Supply chain management regulations**

### **Supply chain management legislative requirements were not implemented or not adhered to**

37. Contrary to the requirements of regulation 3(1)(a) of the SCM Regulations, an annual review was not conducted on the implementation of the SCM policy.
38. Contrary to the requirements of regulation 42 of the SCM Regulations, an internal monitoring system was not in place to determine, on the basis of a retrospective analysis, whether the authorised SCM processes were being followed and whether the desired objectives were being achieved.
39. Contrary to the requirements of regulation 28(1)(a)(ii) of the SCM policy and section 17(2) of the PPPFA, the method for allocating points for achieving specific goals when placing advertisements for tenders was not used.

## **INTERNAL CONTROL**

40. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives and compliance with the MFMA and MSA, but not for the purposes of expressing an opinion on the effectiveness of internal control.
41. The matters reported below are limited to the significant deficiencies regarding the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

### **• Leadership**

#### **Oversight responsibility over reporting**

42. The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control, which resulted in material non-compliance with the applicable laws and regulations and therefore in irregular expenditure.

#### **Implementation of appropriate key controls (policies and procedures)**

43. The municipality did not have documented and approved internal policies and procedures to address planning, implementation, monitoring and reporting processes and events pertaining to performance management and reporting.
44. The municipality did not have key controls to address the system of collection, collation, verification and storage of performance information. No supporting documentation was available to support the outputs reported.

### **• Financial and performance management**

#### **Adequacy of systems used for preparation of the report on predetermined objectives**

45. Sufficient appropriate audit evidence with respect to the reported performance information could not be obtained as the information system used for generating performance information was not appropriate to facilitate the preparation of accurate and complete performance information.



- **Governance**

**Risk identification and management**

46. The municipality did not conduct a risk assessment as required by the MFMA. Consequently, a number of control deficiencies were identified. These include a failure to:
- ensure compliance with the requirements of the SCM policies and related regulations
  - ensure the accuracy, validity and completeness of performance information.

**Fraud prevention, detection and response**

47. The municipality has not performed a risk assessment to assess risks of fraud and has consequently not developed a fraud prevention plan as required by the MFMA.

**Internal audit**

48. The municipality did not have a functioning internal audit department for the year under review.

**Audit committee**

49. An audit committee was not in operation for the year under review.

*Auditor-General.*  
Bloemfontein

30 November 2010



AUDITOR - GENERAL  
SOUTH AFRICA

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